

**MCCORMICK HEALTH CARE CENTER**

**MCCORMICK, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1997  
AC# 3-MHC-F6**

**REPORT ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 25, 1999

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with McCormick Health Care Center, for the contract periods beginning October 1, 1997 and for the twelve month cost report period ended June 30, 1996, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by McCormick Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and McCormick Health Care Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
August 25, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**MCCORMICK HEALTH CARE CENTER**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1997  
AC# 3-MHC-F6

	10/01/97- <u>02/19/98</u>	02/20/98- <u>09/30/98</u>
Interim reimbursement rate (1)	\$85.90	\$86.48
Adjusted reimbursement rate	<u>83.81</u>	<u>84.29</u>
Decrease in reimbursement rate	\$ <u>2.09</u>	\$ <u>2.19</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

**MCCORMICK HEALTH CARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1997 Through February 19, 1998  
AC# 3-MHC-F6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.39	\$44.95	
Dietary		9.22	9.74	
Laundry/Housekeeping/Maint.		<u>6.61</u>	<u>7.72</u>	
Subtotal	<u>\$4.37</u>	54.22	62.41	\$54.22
Administration & Med. Rec.	<u>\$1.22</u>	<u>8.23</u>	<u>9.45</u>	<u>8.23</u>
Subtotal		62.45	<u>\$71.86</u>	62.45
<u>Costs Not Subject to Standards:</u>				
Utilities		2.64		2.64
Special Services		1.29		1.29
Medical Supplies & Oxygen		3.88		3.88
Taxes and Insurance		.80		.80
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$71.06</u>		71.06
Inflation Factor (4.40%)				3.13
Cost of Capital				7.37
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.22
Cost Incentive				4.37
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.84)
Minimum Wage Add-On				<u>.50</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$83.81</u>

### MCCORMICK HEALTH CARE CENTER

#### Computation of Adjusted Reimbursement Rate

For the Contract Periods February 20, 1998 Through September 30, 1998  
AC# 3-MHC-F6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.39	\$44.95	
Dietary		9.22	9.74	
Laundry/Housekeeping/Maint.		<u>6.61</u>	<u>7.72</u>	
Subtotal	\$ <u>4.37</u>	54.22	62.41	\$54.22
Administration & Med. Rec.	\$ <u>1.22</u>	<u>8.23</u>	<u>9.45</u>	<u>8.23</u>
Subtotal		62.45	\$ <u>71.86</u>	62.45
<u>Costs Not Subject to Standards:</u>				
Utilities		2.64		2.64
Special Services		1.29		1.29
Medical Supplies & Oxygen		3.88		3.88
Taxes and Insurance		.80		.80
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		\$ <u>71.06</u>		71.06
Inflation Factor (4.40%)				3.13
Cost of Capital				7.85
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.22
Cost Incentive				4.37
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.84)
Minimum Wage Add-On				<u>.50</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>84.29</u>

**MCCORMICK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended June 30, 1996  
For the Contract Period October 1, 1997 Through February 19, 1998  
AC# 3-MHC-F6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,225,037	\$ -	\$ -	\$1,225,037
Dietary	294,360	-	-	294,360
Laundry	48,341	-	-	48,341
Housekeeping	111,220	-	-	111,220
Maintenance	51,327	-	-	51,327
Administration & Medical Records	289,444	-	26,954 (6)	262,490
Utilities	84,122	-	-	84,122
Special Services	61,488	-	20,421 (8)	41,067
Medical Supplies & Oxygen	129,067	-	5,369 (7)	123,698
Taxes & Insurance	25,443	-	-	25,443
Legal Fees	-	-	-	-
Cost of Capital	247,310	11,997 (1) 831 (9)	3,786 (2) 20,358 (3) 899 (4)	235,095
Subtotal	2,567,159	12,828	77,787	2,502,200



**MCCORMICK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended June 30, 1996  
For the Contract Period October 1, 1997 Through February 19, 1998  
AC# 3-MHC-F6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	40,859	-	-	40,859
Non-Allowable	438,349	3,786 (2) 899 (4) 26,954 (6) <u>20,421 (8)</u>	11,997 (1) 831 (9)	477,581
Total Operating Expenses	<u>\$3,046,367</u>	<u>\$64,888</u>	<u>\$90,615</u>	<u>\$3,020,640</u>
Total Patient Days	<u>31,911</u>	<u>-</u>	<u>-</u>	<u>31,911</u>
Total Beds	<u>88</u>			

**MCCORMICK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended June 30, 1996  
For the Contract Periods February 20, 1998 Through September 30, 1998  
AC# 3-MHC-F6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,225,037	\$ -	\$ -	\$1,225,037
Dietary	294,360	-	-	294,360
Laundry	48,341	-	-	48,341
Housekeeping	111,220	-	-	111,220
Maintenance	51,327	-	-	51,327
Administration & Medical Records	289,444	-	26,954 (6)	262,490
Utilities	84,122	-	-	84,122
Special Services	61,488	-	20,421 (8)	41,067
Medical Supplies & Oxygen	129,067	-	5,369 (7)	123,698
Taxes & Insurance	25,443	-	-	25,443
Legal Fees	-	-	-	-
Cost of Capital	265,819	11,997 (1) 1,129 (5) <u>85,704 (10)</u>	3,786 (2) 20,358 (3) <u>899 (4)</u>	339,606
Subtotal	2,585,668	98,830	77,787	2,606,711

**MCCORMICK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended June 30, 1996  
For the Contract Periods February 20, 1998 Through September 30, 1998  
AC# 3-MHC-F6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	40,859	-	-	40,859
Non-Allowable	419,840	3,786 (2) 899 (4) 26,954 (6) <u>20,421 (8)</u>	11,997 (1) 1,129 (5) 85,704 (10) <u></u>	373,070
Total Operating Expenses	<u>\$3,046,367</u>	<u>\$150,890</u>	<u>\$176,617</u>	<u>\$3,020,640</u>
Total Patient Days	<u>31,911</u>	<u>-</u>	<u>-</u>	<u>31,911</u>
Total Beds	<u>88</u>	Cost Of Capital Patient Days		<u>43,272</u>

**MCCORMICK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended June 30, 1996  
AC# 3-MHC-F6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 65,188	
	Cost of Capital	11,997	
	Accumulated Depreciation		\$ 31,583
	Fund Balance		33,605
	Nonallowable		11,997
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Fund Balance	48,453	
	Nonallowable	3,786	
	Bond Issuance Cost		48,453
	Cost of Capital		3,786
	To adjust bond issuance cost and related amortization to allowable HIM-15-1, Section 2304		
3	Interest Income	20,358	
	Cost of Capital		20,358
	To properly offset interest income HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
4	Nonallowable	899	
	Cost of Capital		899
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
5	Cost of Capital	1,129	
	Nonallowable		1,129
	To adjust depreciation expense, loan cost amortization, and interest income applicable to 32 bed addition to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the rate periods 2/20/98 - 9/30/98)		

**MCCORMICK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended June 30, 1996  
AC# 3-MHC-F6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Administration	26,954	26,954
	To adjust management fees to allowable HIM-15-1, Section 2304		
7	Specialty Bed Revenue Medical Supplies	5,369	5,369
	To properly offset income against related expense State Plan, Attachment 4.19D		
8	Nonallowable Special Services	20,421	20,421
	To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D		
9	Cost of Capital Nonallowable	831	831
	To adjust capital return to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the rate period 10/1/97 - 2/19/98)		
10	Cost of Capital Nonallowable	85,704	85,704
	To adjust capital return to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the rate periods 2/20/98 - 9/30/98)		
	TOTAL ADJUSTMENTS	<u>\$291,089</u>	<u>\$291,089</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MCCORMICK HEALTH CARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended June 30, 1996  
 For the Contract Period October 1, 1997 Through February 19, 1998  
 AC# 3-MHC-F6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1144</u>	<u>2.1144</u>	
Deemed Asset Value (Per Bed)	33,022	33,022	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,452,968	1,452,968	
Improvements Since 1981	6,391	6,391	
Accumulated Depreciation at 6/30/96	<u>(322,259)</u>	<u>(302,225)</u>	
Deemed Depreciated Value	1,137,100	1,157,134	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	79,597	80,999	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	79,597	80,999	
Depreciation Expense	42,186	42,186	
Amortization Expense	5,243	5,242	
Capital Related Income Offsets	(10,179)	(10,179)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	116,847	118,248	\$235,095
Total Patient Days (Actual)	<u>15,956</u>	<u>15,955</u>	<u>31,911</u>
Cost of Capital Per Diem	\$ <u>7.32</u>	\$ <u>7.41</u>	\$ <u>7.37</u>

**MCCORMICK HEALTH CARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended June 30, 1996  
 For the Contract Period October 1, 1997 Through February 19, 1998  
 AC# 3-MHC-F6

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 7.79	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>	<u>\$7.41</u>
Reimbursable Cost of Capital Per Diem		\$7.37
Cost of Capital Per Diem		<u>7.37</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

**MCCORMICK HEALTH CARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended June 30, 1996  
For the Contract Periods February 20, 1998 Through September 30, 1998  
AC# 3-MHC-F6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1144</u>	<u>2.1144</u>	<u>2.1144</u>	
Deemed Asset Value (Per Bed)	33,022	33,022	33,022	
Number of Beds	<u>44</u>	<u>44</u>	<u>32</u>	
Deemed Asset Value	1,452,968	1,452,968	1,056,704	
Improvements Since 1981	6,391	6,391	-	
Accumulated Depreciation at 6/30/96	<u>(322,259)</u>	<u>(302,225)</u>	<u>(39,003)</u>	
Deemed Depreciated Value	1,137,100	1,157,134	1,017,701	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	79,597	80,999	71,239	
Return Applicable to Non-Reimbursable Cost Centers	-	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	79,597	80,999	71,239	
Depreciation Expense	42,186	42,186	39,003	
Amortization Expense	5,243	5,242	1,814	
Capital Related Income Offsets	(10,179)	(10,179)	(7,545)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	116,847	118,248	104,511	\$339,606
Total Patient Days (Minimum 97% Occupancy)	<u>15,956</u>	<u>15,955</u>	<u>11,361</u>	<u>43,272</u>
Cost of Capital Per Diem	\$ <u>7.32</u>	\$ <u>7.41</u>	\$ <u>9.20</u>	\$ <u>7.85</u>



**MCCORMICK HEALTH CARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended June 30, 1996  
For the Contract Periods February 20, 1998 Through September 30, 1998  
AC# 3-MHC-F6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 7.79	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>	<u>\$7.41</u>	<u>\$9.20</u>
Reimbursable Cost of Capital Per Diem		\$7.85	
Cost of Capital Per Diem		<u>7.85</u>	
Cost of Capital Per Diem Limitation		<u>\$ -</u>	